



COMPTROLLER

UNDER SECRETARY OF DEFENSE

1100 DEFENSE PENTAGON
WASHINGTON, DC 20301-1100

AUG 31 2004

MEMORANDUM FOR SECRETARIES OF THE MILITARY DEPARTMENTS
CHAIRMAN OF THE JOINT CHIEFS OF STAFF
UNDER SECRETARIES OF DEFENSE
COMMANDERS OF THE COMBATANT COMMANDS
GENERAL COUNSEL OF THE DEPARTMENT OF DEFENSE
INSPECTOR GENERAL OF THE DEPARTMENT OF DEFENSE
DIRECTOR, ADMINISTRATION AND MANAGEMENT
DIRECTOR, PROGRAM ANALYSIS AND EVALUATION
DIRECTORS OF THE DEFENSE AGENCIES

SUBJECT: Recording Valid Revenue, Obligations, Liabilities, and Expenses for Performing Activities and Ordering Activities

The "Department of Defense Financial Management Regulation" (DoDFMR), Volumes 11A and 11B, provide Department-wide policy for reimbursable operations between performing activities and ordering activities, to include policy related to specific types of orders and amounts to be reimbursed for work ordered and work performed.

Under normal circumstances, performing activities should not accept customer orders that are not sufficiently funded for the work to be performed, nor should work be performed in excess of the requirements contained in the order. In the event it is discovered that costs have been incurred in excess of funds immediately available, performing activities must continue to record all expenses incurred and revenues earned to date, even if the expenses and revenues exceed the funding provided with the customer order. Ordering activities must record all related obligations, accounts payable, and expenses. This situation recently occurred with over ocean transportation in support of Operation Iraqi Freedom, where excessive over ocean transportation costs have been incurred to accomplish mission objectives.

Ordering activities may not decline to record or report valid obligations even if awaiting supplemental funding. In addition, ordering activities may not enter into agreements with performing entities to hold billings or delay revenue recognition. Obligations must be recorded by ordering activities when orders are accepted by performing activities or, when acceptance is not required, when the orders are placed. Liabilities and expenses must be recorded based on evidence of performance. Obligations, liabilities, and expenses must be recorded directly in the accounting records of the ordering activities and reflected in their monthly budgetary reports.

In addition, allotment holders are responsible for the formal certification of these actions. This requirement is included in the year-end certification statement directed by the Office of Management and Budget for the Financial Management Service (FMS) 2108 report - Year-end

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Closing Statement. Fund holders responsible for the obligation of funds must “certify that the amounts shown in the FMS 2108 report are correct, and that all known transactions meeting the criteria of Title 31, United States Code, Section 1501(a) have been obligated and are so reported.”

My point of contact for this action is Mr. Wayne Hudson. Mr. Hudson can be reached by phone at (703) 697-8281 or at wayne.hudson@osd.mil.


Tina W. Jonas

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